

**Testimony on Oversight of the SEC’s Division of Investment Management
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*Before the
United States House of Representatives Committee on Financial Services
Subcommittee on Capital Markets*

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Chair Wagner, Ranking Member Sherman, and Members of the Subcommittee:

Thank you for your invitation to testify today about the activities and responsibilities of the Division of Investment Management (the “Division”) of the Securities and Exchange Commission. It is my honor and pleasure to appear before you today to discuss the Division’s work. I am testifying in my official capacity as the Director of the Division of Investment Management, but my testimony does not necessarily reflect the views of the Commission, the Commissioners, or other members of the staff.

I have served as the Director of the Division since December of 2021, and I am deeply proud to work alongside a staff of such dedicated public servants on behalf of the American investing public.

The Division has primary responsibility for administering the Investment Company Act of 1940 and Investment Advisers Act of 1940. Under the Investment Company Act, the Division is charged with implementing regulatory policy for investment companies, which include mutual funds, money market funds, closed-end funds, business development companies (“BDCs”), unit investment trusts, variable insurance products, and exchange-traded funds (“ETFs”). Under the Investment Advisers Act, the Division is similarly responsible for implementing regulatory policy as applicable to investment advisers, including advisers to registered investment companies, separately managed accounts, and, in certain cases, to private funds.

The work of the Division of Investment Management is vitally important because it directly impacts the lives of many Main Street American retail investors. The financial instruments that the Division oversees include some of the most common investments that millions of Americans use to help secure their financial futures in order to buy a home, to send their children to college, or to prepare for their retirement. Our work is essential to the SEC’s ability to carry out its tripartite mission of protecting investors; maintaining fair, orderly, and efficient markets; and facilitating capital formation. Investment management is a critical, thriving component of the U.S. economy that serves both the retirement and financial needs of millions of American investors and the capital needs of our country’s businesses.

The Division’s role, in particular, has grown increasingly important in recent years as the industry it regulates has experienced all-time highs in its growth and development. Over the past ten years alone, the assets managed in SEC-registered funds, such as ETFs and mutual funds,

have increased nearly 96% – from less than \$15 trillion – to nearly \$29 trillion.¹ As of last year, more than half of American households – 54.7% – and more than 115 million U.S. individuals own registered funds.² These figures reveal the enormous shift of American household wealth to these types of funds in just over a single generation, from only 25% of households in 1990 and less than 6% in 1980.³

That universe includes 14,000 mutual funds – including money market funds – and ETFs.⁴ Money market funds now hold a record high of \$5.9 trillion, bolstered by inflows of \$670 billion in just the past six months.⁵ Likewise, assets in ETFs have grown fivefold from less than \$1.5 trillion in 2012 to an all-time high of more than \$7 trillion today.⁶ Private funds, also, have experienced dramatic growth over the past decade. The number of private equity, hedge, venture capital, and similar funds has more than tripled from approximately 30,000 to 90,000 funds, while the gross assets in those funds have grown 150% to over \$25 trillion.⁷

Investment advisers, who manage these funds as well as approximately \$43.8 trillion within separately managed accounts,⁸ have also enjoyed thriving growth in recent years. The number of investment advisers registered with the SEC now stands at more than 15,000, and those entities employ more than 971,000 individuals while serving more than sixty million clients.⁹ All three of those figures represent all-time highs for the industry.

Approximately two hundred civil servants in our Division, across five offices, work to oversee this legal framework and the more than \$114 trillion in regulatory assets under management that it covers. Staff throughout the Division discharge their responsibilities dutifully and with great care as we know those dollars comprise the earnings and investments of millions of American citizens saving for retirement, homes, college tuition, and their families' futures.

Disclosure Review and Accounting Office

The Disclosure Review and Accounting Office is charged with reviewing required regulatory filings from the Division's registrants to ensure that those filings provide accurate and adequate disclosure to investors. The filings reviewed include registration statements, financial

¹ Investment Company Institute, *2023 Investment Company Fact Book Data Tables*, at Table 66 (May 23, 2023), available at <https://www.icifactbook.org/23-fb-data-tables.html#sec1>.

² Investment Company Institute, *ICI Research Perspective*, at 1 (Oct. 2022), available at <https://www.ici.org/system/files/2022-10/per28-09.pdf>.

³ *Id.* at 3.

⁴ Investment Company Institute, *2023 Investment Company Fact Book Data Tables*, at Table 65 (May 23, 2023), available at <https://www.icifactbook.org/23-fb-data-tables.html#sec1>.

⁵ Based on Form N-MFP filings received through August 17, 2023.

⁶ Division of Investment Management staff analysis of Bloomberg data as of July 31, 2023.

⁷ Based on Form ADV filings through July 31, 2023. Represents the sum of Registered Investment Adviser and Exempt Reporting Adviser reporting, less estimated overlap of private funds reported by both registered and exempt advisers.

⁸ Division of Investment Management staff analysis of Form ADV data as of August 31, 2023.

⁹ Investment Adviser Association, *Investment Adviser Industry Snapshot 2023*, at 7 (2022), available at https://investmentadviser.org/wp-content/uploads/2023/06/Snapshot2023_Final.pdf.

statements, prospectuses, proxy materials, and other disclosure documents of registered investment funds, business development companies, and insurance products.

In the last fiscal year alone, IM staff reviewed more than 1,900 filings related to more than 4,500 funds and insurance products. In addition, the staff also reviewed the financial statements in the annual reports of more than 4,250 funds.¹⁰ Notably, the staff have observed a marked increase in the complexity of those filings in recent years, as we have experienced an influx of novel ETF offerings, including funds seeking to employ distributed ledger technology, to invest in Bitcoin and Ether futures, and to provide exposure to single-stocks.

This essential function of the Division directly benefits investors by improving the quality of disclosure in filings provided to investors so they can make informed investment decisions. The disclosure review process also helps the Division to identify and monitor emerging risk areas in the marketplace and to inform our regulatory activities.

Rulemaking Office

Our Rulemaking Office considers whether the Commission should propose new rules, amend existing rules and forms, or adopt proposed rules pursuant to our authorities under the Investment Company Act, Investment Advisers Act, and other federal securities laws. In determining whether to recommend that the Commission amend existing rules or propose new rules, the Division's Rulemaking staff evaluates existing rules' efficacy at providing appropriate protections in light of market developments. Rulemaking staff are also responsible for executing specific statutory directives from Congress to create new rules and forms. Importantly, as part of the rulemaking process, the staff pores over every comment letter from stakeholders and participates in numerous meetings with industry participants to hear their feedback on every proposal. The Rulemaking Office also works closely with our colleagues in the Division of Economic and Risk Analysis, who complete an economic analysis that examines the costs, benefits, and other economic effects of each proposal and subsequent final rule.

Chief Counsel's Office

The Chief Counsel's Office monitors implementation of recently adopted regulatory changes, including the enhanced frameworks for investment adviser marketing, fund valuation practices, and funds' use of derivatives. Staff in the Chief Counsel's Office regularly engage with market participants who are seeking no-action letters and other staff positions under the Investment Company Act and the Investment Advisers Act. The staff in this office also review applications for exemptive relief from the federal securities laws and make recommendations to the Commission regarding whether to proceed with issuing the requested relief, as appropriate. Finally, within the Chief Counsel's Office, the IM Liaison Office provides regular consultations to other divisions throughout the SEC, specifically our Division of Enforcement and Division of Examinations, on matters that implicate the Investment Company Act or the Investment Advisers Act.

¹⁰ Filing date statistics reflect actual data through August 31, 2023, and estimated statistics for the remaining month of FY 2023.

Analytics Office

Our Analytics Office informs the Division’s policy initiatives and priorities with ongoing monitoring and analysis of the asset management industry. Analytics provides timely, astute analysis of industry data, trends, and potential risks; builds outreach capabilities to respond in real-time to market events; and reviews the different data streams available to the SEC via filings on regulatory forms such as Form ADV, Form N-CEN, Form PF, Form N-PORT, and many others. This information provides the Division and the Commission with important data ranging from census-type facts about funds and advisers to data regarding systemic risk that is crucial to analyze quickly and thoughtfully in times of market stress.

Managing Executive’s Office

Finally, our Managing Executive’s Office provides for the functioning of the entire Division and is charged with overseeing all of its operational affairs. Staff in the Managing Executive’s Office supervise the Division’s human resources, budgeting, contracting, technology, risk management, process improvement, knowledge management, records management, and all other business support matters.

Each of the Division’s five offices are constantly working in concert to ensure that IM is contributing maximally to executing the SEC’s mission and protecting the millions of Americans who have chosen to invest in funds of all varieties. Indeed, the most recent results of the Partnership for Public Service’s survey of Best Places to Work in Federal Government ranked our Division third out of 422 agency subcomponents – that is, above the 99th percentile – in the category of Performance.¹¹

Thank you again for your invitation to discuss the Division’s work. If I may conclude on a personal note, I experienced the great joy and enormous privilege of becoming a United States citizen fifteen years ago, and my twenty months at the SEC have been the greatest honor of my professional career. I am particularly grateful for the opportunity to serve with extraordinarily dedicated members of the Division of Investment Management. Those public servants are fully committed to serving their country and to our mission of promoting the formation of capital, preserving market integrity, and protecting the treasure of our fellow Americans.

I am happy to answer your questions.

¹¹ “The Work Unit subcategory under Performance measures the extent to which employees believe their work unit produces high-quality work and contributes to the agency’s overall performance.” 2022 Federal Employee Viewpoint Survey. *2022 Best Places to Work in the Federal Government Rankings*, available at https://bestplacestowork.org/rankings/?view=category&category=performance_workunit&size=sub&.